5 QUESTIONS ABOUT LIFE INSURANCE TO ASK HIGH NET WORTH CLIENTS

Financial advisors to high net worth clients are becoming more familiar with the life settlement option — helping sell a life insurance policy to an investor for a cash payment as an alternative to maintaining, lapsing, or surrendering a life insurance policy that the client no longer can afford, wants or needs.

But what if clients can afford the annual premiums without materially straining their retirement budgets? Should they always keep the life insurance policies in force, regardless of any other financial planning considerations?

Please find below five questions that financial advisors should ask clients who can comfortably pay their life insurance premiums to determine whether they should keep their policies, or explore their potential value on the life settlement market (thereby eliminating premium payments):

1. Do life insurance beneficiaries still need the coverage?

Many individuals purchased their life insurance policies at a time when the death benefit was intended to protect their loved ones in the event of their untimely passing. If the client is now retired, it is possible that their children are adults who have assumed financial responsibility for their own families, so perhaps the death benefit protection is no longer needed. Moreover, most high net worth clients have diversified portfolios that allow them to leave behind assets to their heirs beyond life insurance benefits.

2. Is the life insurance policy still needed as an estate planning tool?

It has long been a staple of estate planning advisors to counsel their high net worth clients to obtain life insurance policies with very large death benefits. The strategy is simple: create a vehicle for heirs to receive tax-free income at the time of the insured's passing so they have sufficient cash on hand to pay a large estate tax bill when the assets are inherited. However, The Tax Cuts and Jobs Act — signed into law by President Trump in 2017 — contained some important changes to the federal estate tax, including the doubling of the estate tax exemption to $11.2 million per individual and $22.4 million, with portability, for a married couple. This means that just an estimated 1,800 estates each year will be subject to federal estate taxes. If the client is one of the 1,800, then it may make sense to keep the life insurance policy under the right circumstances. But for the vast majority, the policy is not fulfilling its original intent of offsetting a potential tax liability.

3. Have the maintenance costs of the life insurance policy increased?

Even if the annual premiums are affordable to a high net worth client, it is possible that the projected insurance policy costs have increased more than the client realizes. For example, seniors are often living longer than expected and their increasing age can drive the life insurance premiums to excessive levels. Welcome Funds has seen cases where annual premiums can exceed 10% - 15% of the face value of the policy as the insured approaches 90 years old. Many financial advisors and estate planning professionals did not anticipate the advanced age of the insured when the large-face policy was issued many years ago. Welcome Funds often evaluate policies where the estate, for example, was not prepared to fund the premiums for more than 20 years (in this instance, life insurance policies purchased before the year 2001).

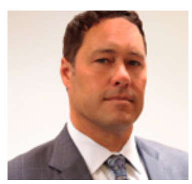
4. Are there debts to repay or other unpaid family expenses to meet?

Another reason for purchasing life insurance is to provide a revenue stream to finance anticipated future obligations. For example, life insurance policy proceeds could be earmarked to pay bills that have accumulated over time; fund educational expenses for children or grandchildren; pay for funeral expenses; or establish a charitable legacy in the family name. However, many high net worth clients now in their golden years have had time and opportunity to address each of these anticipated financial needs in other ways.

5. Does it make sense to sell part of the death benefit and keep part of it?

Some financial advisors are surprised to learn that the decision to keep or sell a life insurance policy does not need to be an all-or-nothing proposition. It may be possible for the client to maintain part of his life insurance policy coverage to benefit his heirs after his death, and sell part of it now to generate cash for those same heirs (or anyone else) while living. A "Retained Death Benefit" life settlement, which still eliminates future premiums for the client, achieves this hybrid or "best of both worlds" solution.

The answers to these five questions invariably involves "intent." A life settlement transaction is an attractive option to explore when circumstances change, and the original intent of the policy is no longer being addressed or fulfilled. Even if a client can afford the life insurance premiums, it may be better to liquidate the policy and use the proceeds toward gifts now, other higher yielding assets, or more advantageous products. An experienced life settlement broker like Welcome Funds will help determine the potential value of a life insurance policy on the secondary market for life insurance and maximize the purchase price if the policy is ultimately sold.



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